

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION NO. W-4539

June 16, 2005

R E S O L U T I O N

**(RES. W-4539), THE SEA RANCH WATER COMPANY (SRWC).
ORDER AUTHORIZING A GENERAL RATE INCREASE IN
WATER RATES PRODUCING AN INCREASE IN ANNUAL
REVENUES OF \$146,904 OR 22.98% FOR TEST YEAR 2004.**

SUMMARY

By Draft Advice Letter, accepted on August 14, 2004, SRWC requested an increase in rates producing an increase in annual revenue of \$207,534 or 32.5% for test year 2004. This resolution grants a general rate increase in gross annual revenues of \$146,904 or 22.98% for test year 2004. The increase will recover increased operating expenses and provide SRWC with an adequate rate of return on its capital investment.

BACKGROUND

SRWC is a Class C water utility and serves approximately 1,713 residential customers in the area known as The Sea Ranch, and vicinity, located approximately 7 miles southeast of Gualala, Sonoma County. SRWC requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service to produce additional revenues of \$207,534 or 32.5% in 2004. SRWC's request shows 2004 gross revenues of \$639,187 at present rates increasing to \$846,721 at proposed rates to produce a rate of return on rate base of 5%.

SRWC's present rates became effective on March 31, 2003, due to a Consumer Price Index (CPI) increase. SRWC's last general rate increase was implemented on January 16, 2003, pursuant to Resolution (Res.) W-4369, which authorized a general rate increase of \$81,215 or 15.6% for test year 2002 and a 0% rate of return.

The system has two wells which are capable of producing 500 to 550 gallons per minute. They are approximately 100 feet deep and have 60 hp motors. The water is treated with chlorine gas and pumped into the distribution system. There are seven storage tanks, two 500, 000-gallon tanks, four 50,000-gallon tanks, a 25,000-gallon tank, and two hydro-pneumatic pump stations.

There is a 90-million gallon reservoir which was built in 1997. It holds approximately enough water for one year of use; however, it was built specifically to meet storage needs for the summer months because environmental regulations require that SRWC does not pump from its wells when the river they are adjacent to drops below a certain level.

The reservoir water flows to the water treatment plant. The treatment plant was upgraded in 2004 to include a sludge drying bed. This will reduce the cost of having sludge removed by truck from the adjacent storage tank.

DISCUSSION

The Water Division (Division) made an independent analysis of SRWC's summary of earnings and issued its report in April of 2005. Appendix A shows SRWC's estimates as well as the Division's estimates of the summary of earnings at present, requested, and recommended rates. Appendix A also shows differences between SRWC's and the Division's estimates in operating expenses, and rate base. SRWC was informed of the Division's differing views of operating expenses and rate base and accepted the Division's recommended rates as shown in Appendix A.

SRWC files annual reports regularly. There are no outstanding Commission orders. The rates proposed by the Division are shown in Appendix B.

The last General Rate Case (GRC) authorized a zero percent rate of return. SRWC requested a rate of return of 5% for test year 2004. SRWC calculated the requested increase using a rate base of \$4,480,270. The Audit and Compliance Branch of the Division did an audit of the company. The audit determined rate base to be \$281,579 since most of the plant had been contributed. SRWC agreed with the Division's assessment of the rate base. Due to the relatively low rate base, the operating ratio method was ultimately used to determine the revenue requirement. Per Decision (D.) 92-03-093, effective April 30, 1992, and Res. No. W-4524, effective March 17, 2005, the Division calculated the rates using the

return-on-rate base and the operating ratio method. The operating ratio method produced higher rates using an operating ratio of 24%.

Ordering Paragraph 3 of D.91-04-068, April 24, 1991, grants authority to class C utilities to institute facilities fees as part of a GRC. SRWC requested a facilities fee be added to their tariff. This fee was calculated by dividing the estimated costs to expand the system by the number of potential future customers.

The County of Sonoma has ordered that new houses and some remodeled houses install fire sprinkler systems. Some customers will be required to have a larger meter size to accommodate the fire flow requirements of the fire sprinkler systems. In order to be fair to these customers, a special condition will be added to SRWC's Schedule No. 1, General Metered Service, that states,

“Any service to a residential customer who requires a 1-inch meter only because of fire flow requirements for a fire sprinkler system will be billed at the above 5/8 x 3/4-inch metered service charge plus a 25% surcharge, which equals \$8.58 per two months.”

The current SRWC tariff shows the rates in a monthly format. The company bills bi-monthly. The new tariff has been changed to reflect the actual billing schedule.

NOTICE AND PROTESTS

A notice of the proposed rate increase was mailed to each customer on August 19, 2004. The Commission received one complaint from a resident regarding the proposed rate increase. SRWC responded to the complaint on September 16, 2004, in a letter describing the reasons for the proposed increase.

A public meeting was held at Del Mar Hall, The Sea Ranch on September 15, 2004, at 6:30 p. m. The Commission's representative explained Commission rate-setting procedures. There were approximately 7 customers in attendance. SRWC explained why the increase was necessary. The topic of instituting a facilities fee for new customers was discussed. One customer was concerned that the increase in rates would result in the water company having to pay more income taxes. This is not seen as a major issue by the water company because they would not be making enough money for taxes to be substantial. The meeting ended at 7:35 p.m.

COMPLIANCE

Per Res. W-4492, SRWC is required to notify the Division upon completion of the tank improvement project, and provide a summary detailing the amounts of loan receipts and disbursements. SRWC has indicated that the tank project will be completed in May, 2005. At that time, SRWC should notify the Division as required.

COMMENT

On May 25, 2005 the Water Division received a phone call from a Mr. James Daniel, a customer of Sea Ranch Water Company. Mr. Daniel objected to the fact that he would have to pay for a 2-inch metered connection even though the size of his connection was necessary to provide fire protection to his house. Mr. Daniel has four 1½-inch wharf hydrants near his house to fight fires. He claimed that the only reason he had a 2-inch meter was to fight fires, and without this service his dwelling would be in danger.

On June 2, 2005, Ellen Buechner of the Sea Ranch Association sent a fax to the Water Division containing a copy of a May 3, 2005 letter from Mr. Daniel to James Durbin, Director of Utilities of the Sea Ranch Water Company. In the letter Mr. Daniel questioned "the amount billed for service on my current statement" and requested he be charged at the $\frac{5}{8} \times \frac{3}{4}$ metered rate plus 25%. He stated that he has 1½-inch fire hydrants and that "the sole reason I have the 2" meter is to operate these hydrants in case of a fire emergency."

Attached to this fax was a response from Ms. Buechner to Mr. Daniel dated June 2, 2005 that referred to page 9 of the Staff Report (which had never been sent to Mr. Daniel). Ms. Buechner's letter noted that the staff report did not consider Mr. Daniel's request to be part of the rate case because "you are the only residential customer in the system with a 2-inch meter; your water consumption is in the top 4% of all residential customers; and installation of your 2-inch meter was implemented solely at your request and was not required by any State or County agency or regulation." The letter offered to charge Mr. Daniel the 1½-inch metered rate if Mr. Daniel would allow his hydrants to be used to fight a wildfire affecting The Sea Ranch area.

Mr. Daniel responded by e-mail with letters to both Sea Ranch and the CPUC. In the CPUC letter Mr. Daniel complained about the fact that he could not receive

service at the \$67.31 per month rate (for a 5/8 by 3/4 meter plus 25% plus service charge), but would have to pay \$381.84 per month if not given this option. He said he has always been recognized by Sea Ranch as having a 2" meter only because of the need for fire protection and was actually charged for a 1" meter for many years and then goes on to refute each statement in the Sea Ranch letter. In his letter to Sea Ranch he held out for service at the 5/8 by 3/4 meter rate.

In the case of the sprinkler system rate of 5/8 by 3/4-inch meter service charge plus 25%, staff is emulating the Commission determination to allow such rates to California Water Service Company customers in its Dixon District (Schedule No. DX-1, Special Condition 1). The situation in Dixon and Sea Ranch are exact parallels and customers in both service area should be treated the same. There are no known Commission rulings relating to a special rate for a situation such as that exemplified by Mr. Daniel. According to The Sea Ranch Water Company, Mr. Daniel's demand for water is two and one-half times the normal 5/8 by 3/4-inch meter demand. For example, based upon data provided to staff by Sea Ranch, Mr. Daniel's usage in 2004 was over 130,000 gallons, for a total charge of over \$500, compared to less than 50,000 by a typical 5/8 by 3/4-inch meter customer (charge over \$200), and his usage in 2004 was over 128,000 gallons compared to over 48,000 by a 5/8 by 3/4-inch meter customer, indicating that a 5/8 by 3/4-inch meter service charge increased by 25% would perhaps not be appropriate. However, Mr. Daniel's usage of approximately 2.5 times the 5/8 x 3/4 metered customer would indicate that a one inch meter would meet his demand requirements. Staff informed the Sea Ranch Water Company and Mr. Daniel that the appropriate rate would be a one inch metered rate plus 25 percent. Both Mr. Daniel and Sea Ranch agreed that this would resolve this issue. Consequently, the Water Division added this special condition to the metered rates calling for a one inch plus 25% service charge when a two inch meter was required only for fire suppression purposes. Water Division adjusted all rates accordingly so that Sea Ranch will make its authorized revenue requirement.

FINDINGS AND CONCLUSIONS

1. The summary of earnings (Appendix A) developed by the Branch is reasonable and should be adopted.
2. The rates proposed by the Branch (Appendix B) are reasonable and should be adopted.

3. The quantities (Appendix D) used in the preparation of this report are reasonable and should be adopted.
4. The Branch proposed special condition stating, "Any service to a residential customer who requires a 1-inch meter only because of fire flow requirements for a fire sprinkler system will be billed at the above $5/8 \times 3/4$ -inch meter service charge plus a 25% surcharge" should be adopted and added to the tariff.
5. The Branch proposed special condition stating, "Any service to a residential customer who requires a 2-inch meter only because of fire flow requirements for fire suppression will be billed at the above one inch meter service charge plus a 25% surcharge" should be adopted and added to the tariff.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under the Public Utilities Code Section 454 for The Sea Ranch Water Company to file an advice letter incorporating the Summary of Earnings and revised rate schedules attached to this resolution as Appendices A and B, respectively, and concurrently to cancel its present effective rate Schedule No. 1, General Metered Service. Its filing shall comply with General Order 96-A. The effective date of the revised schedules shall be five days after the date of filing.
2. The Sea Ranch Water Company is authorized to increase annual revenues by 146,904 or 22.98%, for Test Year 2004.
3. Any service to a residential customer who requires a 1-inch meter only because of fire flow requirements for a fire sprinkler system will be billed at the $5/8 \times 3/4$ -inch meter service charge plus a 25% surcharge shall be adopted and added to the tariff.
4. Any service to a residential customer who requires a 2-inch meter only because of fire flow requirements for fire suppression will be billed at the one inch meter service charge plus a 25% surcharge shall be adopted and added to the tariff.

5. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on June 16, 2005; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director

MICHAEL R. PEEVEY
President

GEOFFREY F. BROWN

SUSAN P. KENNEDY

DIAN M. GRUENEICH

JOHN A. BOHN

Commissioners

APPENDIX A
THE SEA RANCH WATER COMPANY
SUMMARY OF EARNINGS

	Utility Estimate		Staff Estimate		Recommended Rates
	Present Rates	Requested Rates	Present Rates	Requested Rates	
Revenue					
Metered Revenue	\$639,187	\$846,721	\$639,187	\$846,721	\$786,091
Expenses					
Purchased Power	61271	61271	61271	61271	61271
Other Volume Related Expenses	19599	19599	19599	19599	19599
Employee Labor	288234	288234	288234	288234	288234
Materials Expense	7665	7665	4251	4251	4251
Contract Work	(136000)	(136000)	(136000)	(136000)	(136000)
Transportation Expense	6768	6768	6768	6768	6768
Other Plant Maintenance Expenses	45500	45500	45500	45500	45500
Office Salaries	24656	24656	24656	24656	24656
Management Salaries	16592	16592	16592	16592	16592
Employee Pension and Benefits	112362	112362	112362	112362	112362
Uncollectibles	500	500	500	500	500
Office Service and Rentals	6360	6360	6360	6360	6360
Office Supplies and Expenses	29737	29737	29737	29737	29737
Professional Services	23780	23780	23780	23780	23780
Insurance Expense	48894	48894	48894	48894	48894
Regulatory Commission Expenses					
General Expenses	31792	31792	30992	30992	30992
Total Operating Expenses	587710	587710	583496	583496	583496
Depreciation	64537	64537	6955	6955	6955
Payroll Taxes	26778	26778	26778	26778	26778
Property Taxes	26354	26354	26354	26354	26354
Franchise Fee					
Subtotal Deductions	705379	705379	643583	643583	643,583
Net Income	(66192)	141,342	(4396)	203,138	142,508
State Income Tax	0	0	800	800	800
Federal Income Taxes	0	0	0	0	0
Total Deductions	705379	705379	644383	644383	644,383
Net Revenue (loss)	(66,192)	141,342	(5,196)	202,338	141,708
Rate Base Average Year	4480270	4480270	281579	281579	281579
Rate of Return					24%

APPENDIX B
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THE SEA RANCH WATER COMPANY

Schedule No. 1
GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The area known as The Sea Ranch, and vicinity, located approximately 7 miles southeast of Gualala, Sonoma County.

RATES

Quantity Rate:

All water, per 100 gallons..... \$0.5401 (I)

Service Charge: per meter per **BI-MONTHLY** billing period: (C)

For	5/8 x 3/4 inch.....	\$ 34.51	(I)
For	3/4 inch.....	\$ 51.77	
For	1 inch.....	\$ 86.28	
For	1-1/2 inch.....	\$172.56	
For	2 inch.....	\$276.09	
For	3 inch.....	\$517.67	
For	4 inch.....	\$862.78	(I)

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the charge for water used computed at the Quantity Rates.

SPECIAL CONDITIONS

1. Any customer prior to resuming service within twelve months after such service was discontinued will be required to pay all service charges that would have been billed if service had not been discontinued.
2. All bills shall be subject to the Plant Replacement Fee set forth in Schedule No. R.
3. Any service to a residential customer who requires a 1-inch meter only (N)
because of fire flow requirements for a fire sprinkler system will be billed at |
at the above 5/8 x 3/4-inch meter service charge plus a 25% surcharge. (N)
4. Any service to a residential customer who requires a 2-inch meter only (N)
because of fire flow requirements for fire suppression will be billed at |
the above 1-inch meter service charge plus a 25% surcharge. (N)
5. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

APPENDIX B
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THE SEA RANCH WATER COMPANY

Schedule No. F

FACILITIES FEES

APPLICABILITY

Applicable to all customers applying for service from the Utility in the territory served for premises not previously connected to its distribution mains, for additional service connections to existing premises, and for increases in size of service connections to existing premises.

TERRITORY

This schedule is applicable within the entire territory served by the utility.

RATES

Initial Fee per Service Connection..... \$678.60

SPECIAL CONDITIONS

1. Facilities fees are payable in addition to and do not limit any charges for extensions of mains that may be applicable under Rule 15, Main Extensions.
2. Payments made under this schedule are not subject to the reimbursement fee set forth in Schedule No. UF.

**APPENDIX C
THE SEA RANCH WATER COMPANY**

**COMPARISON OF RATES
PER MONTH**

Quantity Rate:	Present Rates <u>Per Month</u>	Recommended Rates <u>Per Month</u>
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All water, per 100 gallons	\$ 0.44	\$ 0.5401
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Service Charge per meter per month:

For	5/8 x 3/4 inch.....	\$ 14.07	\$ 17.26
For	3/4 inch.....	\$ 21.11	\$ 25.88
For	1 inch.....	\$ 35.19	\$ 43.14
For	1-1/2 inch.....	\$ 70.37	\$ 86.28
For	2 inch.....	\$112.61	\$ 138.05
For	3 inch.....	\$211.13	\$ 258.83
For	4 inch.....	\$351.89	\$ 431.39

A comparison of monthly bills for a 5/8 x 3/4" meter at various consumption rates is as follows:

Quantity Used <u>(100 Gallons)</u>	Present <u>Rates</u>	Proposed <u>Rates</u>	Amount <u>Increase</u>	Percent <u>Increase</u>
0	\$14.07	\$17.26	\$3.25	22.67%
33.37 (Avg.)	\$28.75	\$35.28	\$6.53	22.71%
50	\$36.07	\$44.26	\$8.19	22.71%

APPENDIX D
THE SEA RANCH WATER COMPANY

ADOPTED QUANTITIES
TEST YEAR 2004

1.	Ad Valorem Taxes:	
	Tax Rate	1.92%
	Assessed Value of Land	\$1,372,604
	Total PropertyTax:	\$26,354

2.	Franchise Tax:	\$0
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3.	Service Connections:	
	<u>Meter Size</u>	<u>Number of Connections</u>
	5/8 x 3/4"	1,684
	3/4"	6
	1"	13
	1 1/2"	7
	2"	<u>3</u>
	Total	1,713

4.	Purchased Power:	
	<u>Schedule No. A-1</u>	<u>kWh</u>
	Winter	42,551
	Summer	42,266
	<u>Schedule No. A-10S</u>	<u>kWh</u>
	Winter	173,449
	Summer	232,181

5.	Payroll:	
	Labor	\$288,234
	Office	\$24,656
	Management	\$16,592

6. Adopted Taxes:

There are no federal income taxes for test year 2004 because this is a non-profit company.

State Tax @ 8.84% (minimum of \$800)	\$800
Total Income Tax	\$800